

# 2015 NATIONAL TRIBAL ENERGY SUMMIT

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## Access to Capital Roundtable

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# Introduction

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- Getting significant energy-related projects off the ground in Indian Country can be significantly harder than for private land-owners
- Greenfield development anywhere is nearly impossible, and the complications and political risks of dealing with Tribes can be overwhelming
- However, the opportunities to build commercial scale renewable and traditional energy resources in Indian Country are abundant and should progress dramatically in the next decade
- This presentation will provide some practical considerations for helping Tribes move projects from concept to reality

# Initial Practical Considerations

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- A number of key practical thoughts based on experience working on a large number of projects
  - Expect a return commensurate with your investment
  - Prepare in a way that enhances the opportunity for return
  - Make every effort to de-risk the project
  - Don't suspend best practices
  - Focus on competitive advantages
  - Surround yourself with the best of the best
  - Utilize resources available
  - Don't focus on the wrong things
  - Be patient

# Practical Step – Make Investments to Get Return

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- We all learned a fundamental mathematical concept in Elementary School:
  - 0 multiplied by  $x$  [where  $x$  is anything] will always equal zero
- In any project, your return is based on a reasonable multiple of your investment
- In the context of an energy project, the smaller your investment, the smaller your expected return
- No entity has yet come forward that is willing to take an outsized risk in return for an undersized pay back
- Land is subject to the supply/demand curve just like any other commodity

# Ways to Maximize Investment

- If your return is predicated on your investment, then focus on making your investment worth much more
- For example, if your primary up-front contribution is land, consider taking the following steps to improve its value:

## Site Control

- Identify land that is appropriate for development
- Ensure Tribe has control
- Conduct Cultural Surveys, Title Status Reports, initial environmental reviews

## Political Support

- Consider holding a referendum on specific energy development on specific land
- Communicate with stakeholders
- Research tax and related legal considerations for projects on Tribal lands

## Leasing

- Consider drafting a form of Lease Agreement based on forms completed for successful projects
- Potential for approval of long term lease prior to bringing on developer

# Key Development Goal – De-Risk

## All Major Project Components

- There are three main components to any energy project, which are detailed below
- Successfully completing a project requires de-risking each of these three components as much as possible, as detailed below each component



- If wind/solar, commission a feasibility study from a nationally recognized feasibility consultant and use NREL where possible
  - If Biomass, identify and negotiate long-term agreement for feedstock on a take-or-pay contract with a highly rated counterparty
  - If traditional energy, negotiate MOU or similar with highly rated counterparty
- Contract only with large firms that have strong balance sheet and can provide guaranty of completion and operation at signature capacity
  - Use large EPC contractors with significant balance sheet
  - Avoid technology that has not been proven at a commercial level in other areas
- PPA for electricity generation with highly rated municipal or commercial off-taker
  - Avoid “Merchant Power” or “Merchant Fuel” projects

# Maximize Competitive Advantages

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- Vertical Integration
- Taxation of developments on reservation
  - Tulalip vs. State of Washington
  - Chahalís and Great Wolf Lodge
- Streamlined environmental approval and process
- Price advantages due to tax preference
- Access to NMTC, USDA, DOE, BIA, etc.

# Current State of Tribal Debt

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# Tribal Access to Credit in Today's Debt Markets

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- Tribal debt market in recent years has evolved in response to a variety of factors: the economic recession, a maturing and flattening of tribal enterprise profitability, high-profile tribal defaults and restructurings, case law, and well publicized tribal leadership disputes.
- The effects on Indian Country of the recession have been far reaching and have resulted in a unique borrowing environment:
  - Commercial lenders have scaled back lending to smaller operations, focusing instead only on the larger, higher quality credits, projects with low downside risk and tribes with stronger governmental resource management;
  - Bond investors continue to participate in certain segments, however, the borrowing costs have risen;
- Credit and capital markets have stabilized as more transactions are completed and pricing normalizes.
- Well qualified borrowers with a strong market position, a diversified credit base and a long history of positive lending relationships can attract significant, low cost capital in today's environment

# Creditor's Considerations

## Credit Strengths

- Low leverage
- Senior security interest in primary revenue stream
- Strong borrowing history
- Strong enterprise management with history of experience
- Stable tribal government with history of fiscal responsibility and management  
Proforma debt service coverage ratio of no less than 2 to 1
- Cohesive business plans supporting project development for new money expenditures;
- Inclusion of additional services

## Credit Risks

- Uncertainty re court jurisdiction
- Risks related to change in governance of tribe and impact on management of enterprise
- Risk of unfavorable changes in applicable laws
- Unavailability of certain standard creditor remedies
- Risk of change in non-taxable status of tribe/tribal enterprise due to change in applicable tax laws
- Loss of competitive advantage

# Key Step – Financial Model

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- A financial model that incorporates the totality of the tribe’s financial circumstances and future financial goals is critical to developing a sound capital investment strategy and selecting an optimal plan of finance.
- A financial model can:
  - Identify and graphically depict historic and proforma trends;
  - Project future trends of revenue streams, amounts available to transfer to the tribal government, and ability to repay debt; and
  - Provide flexibility to conduct a variety of scenario analyses based on variable adjustments, e.g. revenue and expense growth/decline on a per revenue driver basis; debt analysis; capital expenditure analysis; covenant compliance; investment account growth/decline; and asset allocation adjustments.
- A financial model is a sophisticated quantitative tool for analyzing the short, intermediate and long-term impacts of financial decisions.
- The model provides critical, objective criteria that can help tribal leadership make fully-informed decisions and illustrate for tribal members the costs and benefits of pursuing a particular plan of finance or capital investment.

# Key Steps:

## Select the Optimal Financing

- Selecting the optimal financing structure for the borrower will depend on a variety of factors, including:
  - Goals and priorities of the tribe;
  - Status of the debt markets;
  - Availability of tax-exempt financing options;
  - Anticipated timing of the financing needs;
  - Mix of debt and equity.
- Tribes should fully vet each available financing option and model the short- and long-term effects of each.
- For each available financing option, identify all potential benefits and drawbacks to ensure the tribe is fully informed and can be confident that the decisions it makes are based on solid and accurate information.
- A global view of how the overall financing of projects will affect the tribe and its membership is critical.

## Conduct an RFP

- Even if tribe has current relationship with a bank willing to loan funds, an RFP process is often advisable.
- A comprehensive RFP provides potential lenders with a comprehensive overview of the tribe, the project, and other relevant information that will be required for their credit evaluation process
- The information includes historic and pro forma financials, descriptions of project, enterprise, market area & competition, tribal government and leadership.
- Lays out tribe's expectation on certain key terms, e.g. borrowing entity, expected collateral pledge.
- Can reassure the tribe – and its membership – that it is getting the best rates and overall financing package

# Appendix

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- Sovereign Finance
- Contact Information

# Qualifications

- Since forming in 2008, Sovereign Finance has been mandated to provide a wide range of financial services to Native American tribes and enterprises including debt advisory, consulting, investment advisory, and financial planning services.
  - 12 financing transaction completed in the past year
  - Over \$350 million in Tribal Economic Development Bonds
  - Over \$2.5 billion in financings for over three dozen tribal clients since August 2008
  - 6+ active debt engagements in various stages of completion
  - 10 consulting engagements completed or in process over the past year to analyze new business ventures, large equity investments, capital improvement and expansions projects, and capital budgeting analysis.
- Sovereign Finance uses advanced financial modeling and Monte Carlo simulation to provide tribal clients with optimal decision making tools.
  - Industry leading financial models have been developed, back tested and refined over 15 years.
  - All financial analysis includes Monte Carlo Simulation which is used by 95% of the Fortune 500 companies.
- Sovereign Finance has structured and closed billions in financial transactions for Tribes in the public and private markets.
- Our team has the financial and legal expertise to handle any tribal transaction regardless of size or scope.

# Business Lines, Products and Services

## Sovereign Investment Advisors

- Investment Management
  - Due Diligence Review and Assessment
  - Assess Goals, Priorities, Time Horizon, Risk Tolerance, etc.
  - Identify sources of investment funds
  - Review / Draft Investment Policy Statement(s) (IPS)
  - Create Optimal Asset Allocation Strategy
  - Conduct RFP process for investment components
  - Identify / Select / Monitor Managers
  - Implement Investment Strategy
  - Track performance
  - Control and monitor portfolio expenses
- Fiduciary Standard of Excellence
  - Investment Steward Education
  - Conflicts of Interest Policy
  - Establish Control Procedures
  - Establish Fiduciary Review Process
  - Monitor and Rebalance

## Sovereign Debt Advisors

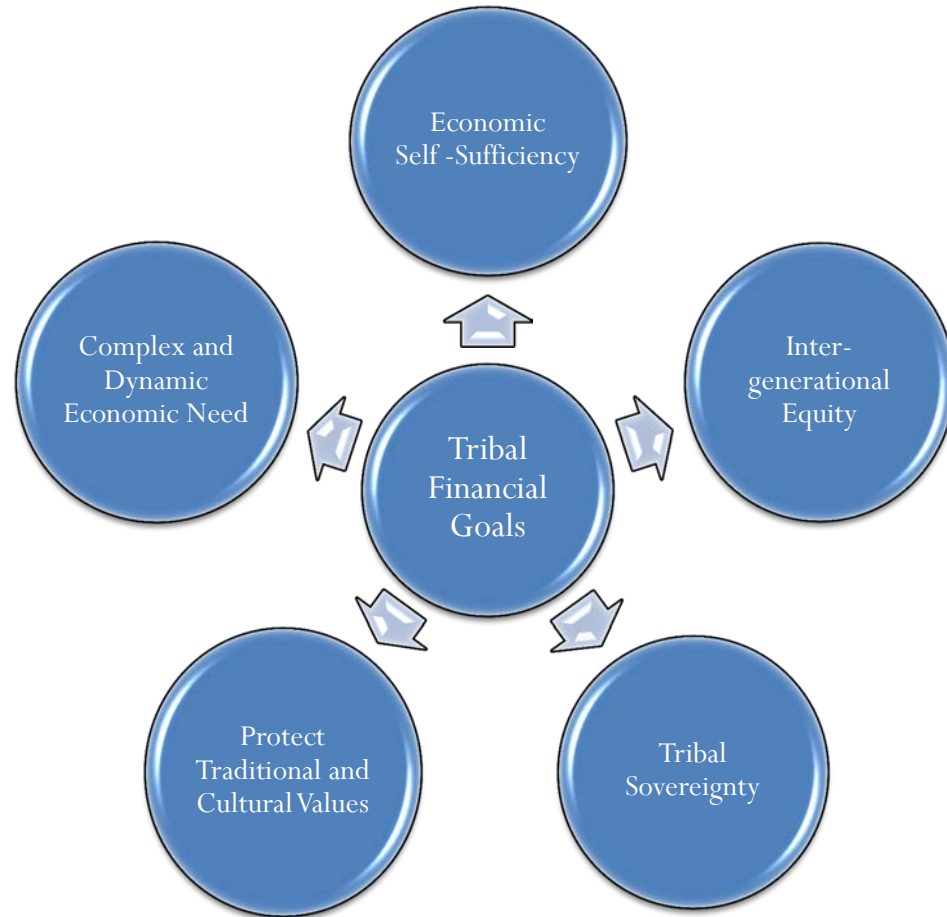
- New Debt Execution
  - Due Diligence Review and Analysis
  - Pro Forma Financial Modeling
  - Debt Structuring and Analysis
    - Taxable and Tax-exempt Bonds
    - Taxable and Tax-exempt Loans
    - Tribal Economic Development Bonds
  - Prepare disclosure documents (Informational / Offering Memorandum)
  - Negotiation of terms
  - Conduct RFP process for Financial Institutions
  - Rating Agency Strategy and Execution
  - Marketing / Syndication
  - Debt market updates
- Management of Existing Debt
  - Investor relations
  - Covenant compliance
  - Derivative evaluation

## Sovereign Consulting

- Development
  - Quantitative Analysis of 3<sup>rd</sup> Party Agreements
  - Project Sizing and Scoping
  - Debt Capacity Analysis
  - Capital Budgeting Analysis
  - Scenario Analysis
  - Stress Testing
- Diversification
  - Development of diversification strategies
  - Corporate structuring and planning
  - Evaluation and decision frameworks
  - Financial modeling and analysis
  - Capital Budgeting and Prioritization Analysis
  - Business Opportunity Assessment
  - Business Opportunity Negotiation and Execution
- Government Financial Analysis and Planning
  - Analysis of revenue drivers
  - Design and draft financial plans
  - Government-level financial modeling
  - Financial management and analysis

# Global Financial Approach

- Our comprehensive approach encompasses the interrelation of all facets of a client's financial picture.
- We are focused on helping clients understand the impacts of their financial decisions to build long-term economic self-sufficiency.
- Sovereign employs a process of sophisticated financial modeling to provide objective context to financial and investment decisions.
- We work with each client individually to find a sustainable balance between providing immediate benefit to membership, building sound long-term economies and increasing financial self-determination.





# Sampling of Tribal Mandates

Client	Services	Client	Services
<b>Agua Caliente Band of Cahuilla Indians</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Consulting</li> </ul>	<b>Lummi Nation</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Consulting</li> </ul>
<b>Confederated Tribes of the Umatilla Indian Reservation</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> </ul>	<b>Fort Mojave Indian Tribe</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Investment Advisory</li> <li>• Consulting</li> </ul>
<b>Confederated Tribes of the Warm Springs Reservation of Oregon</b>	<ul style="list-style-type: none"> <li>• Consulting</li> </ul>	<b>Morongo Band of Mission Indians</b>	<ul style="list-style-type: none"> <li>• M&amp;A Advisory</li> <li>• Financial Advisory</li> <li>• Consulting</li> <li>• Investment Advisory</li> </ul>
<b>Coushatta Tribe of Louisiana</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> </ul>	<b>Oneida Nation of Wisconsin</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> </ul>
<b>Enoch Cree First Nation</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> </ul>	<b>Pauma Development Board of the Pauma Band of Luiseno Mission Indians</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Consulting</li> </ul>
<b>Fort Sill Apache Tribe</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Consulting</li> </ul>	<b>Pima Leasing &amp; Finance Corporation of the Gila River Indian Community</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Investment Advisory</li> </ul>
<b>Laguna Development Corporation</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Consulting</li> <li>• Investment Advisory</li> </ul>	<b>Pueblo of Laguna</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Investment Advisory</li> <li>• Consulting</li> </ul>
<b>Snoqualmie Tribe</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> </ul>	<b>Navajo Nation Gaming Enterprise</b>	<ul style="list-style-type: none"> <li>• Financial Advisory</li> <li>• Consulting</li> </ul>

# Sampling of Tribal Mandates

Client	Services	Client	Services
<b>Tuolumne Band of Me-Wuk Indians</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> </ul>	<b>Southern Ute Indian Tribe Growth Fund</b>	<ul style="list-style-type: none"> <li>Consulting</li> <li>Financial Advisory</li> </ul>
<b>Quechan Indian Tribe</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>	<b>Redding Rancheria</b>	<ul style="list-style-type: none"> <li>Consulting</li> </ul>
<b>Shinnecock Indian Nation</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>	<b>Ute Mountain Ute</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>
<b>Southern Ute Indian Tribe</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> </ul>	<b>Yavapai Apache Nation</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>
<b>Pauma Band of Luiseno Mission Indians</b>	<ul style="list-style-type: none"> <li>Investment Advisory</li> <li>Consulting</li> <li>Financial Advisory</li> </ul>	<b>Wampanoag Tribe of Gay Head (Aquinnah)</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>
<b>Ho-Chunk Nation of Wisconsin</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Investment Advisory</li> <li>Consulting</li> </ul>	<b>Oneida Seven Generations Corporation</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>
<b>Muscogee (Creek) Nation</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>	<b>Iowa Tribe of Oklahoma</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Investment Advisory</li> <li>Consulting</li> </ul>
<b>White Mountain Apache Tribe</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>	<b>Moenkopi Developers Corporation</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> <li>Investment Advisory</li> </ul>
<b>Little Traverse Bay Bands of Odawa Indians</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> </ul>	<b>San Carlos Apache Tribe</b>	<ul style="list-style-type: none"> <li>Financial Advisory</li> <li>Consulting</li> <li>Investment Advisory</li> </ul>

# Contact Information

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